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United States Department of the Interior

TAKE PRIDE IN AMERICA

BUREAU OF LAND MANAGEMENT
Utah State Office
324 South State, Suite 301
Salt Lake City, Utah 84111-2303

3403/3550
U-0126938
(UT-921)

RECEIVED
JUN 30 1993
DIVISION OF
OIL GAS & MINING

James W. Carter, Director
Department of Natural Resources
Division of Oil, Gas, and Mining
355 West North Temple
3 Triad Center, Suite 350
Salt Lake City, Utah 84180-1203

Dear Mr. Carter:

On June 11, 1992, leaseholder American Gilsonite Company (AGC) filed application for a royalty rate reduction on Federal gilsonite lease U-0126938 for a small tonnage of altered, low-grade gilsonite ore in Little Emma No. 6 mine, Bonanza, Utah. The ore is located in the upper panel of the mine on either side of the shaft. The ore in these two small panels falls below the high-melt-point grade of the rest of the ore in the mine and will have to be mined separately and sold as low-grade ore to be left in the mine and be bypassed.

For AGC to justify economical mining of these two panels and avoid a bypass situation poses several problems; i.e., (1) It will be necessary to schedule to mine this ore separately as low-grade ore at a time when the mine is idle from mining the high-grade ore; (2) AGC would be competing economically with itself to mine low-grade ore, which is presently being mined from its other fee-owned gilsonite mine nearby; (3) This low-grade ore presently has a royalty rate of 12½% percent and also costs more to mine than the other low-grade ore being mined nearby from the AGC operation; and (4) If the in-place wooden stulls and platforms needed to mine these two panels deteriorate before the panels are mined, the cost of replacing them at some future time to mine this ore would be prohibitive. Any of these conditions could cause the by-pass. As a result, AGC has applied for a royalty rate reduction, under Section 39 of the Mineral Leasing Act of 1920, for this small tonnage of low-grade ore as a plausible solution to the problem.

An evaluation team in the Utah State Office of the Bureau of Land Management (BLM) has reviewed AGC's request and determined that is has met the requirements in the BLM guidelines and regulations, as required by law, and satisfies the conditions of Category 1 (expanded recovery) for a royalty rate reduction. The prevailing conditions that qualify AGC for Category 1 provide that a royalty rate reduction may be granted when the "resources identified in the application are likely to be bypassed because they are less economically recoverable than resources on nonfederal leases that are part of the near-term mining sequence within the same operation.

In accordance with procedures, we submitted to our Washington Office (WO) a recommendation for a royalty rate reduction from 12½ to the floor level of 2 percent for the low-grade ore block identified. The WO has concurred in this recommendation to avoid a bypass situation and encourage the greatest ultimate recovery of the resource. Our decision to AGC will clearly indicate the royalty rate reduction to 2 percent will be for a defined low-grade ore block and remaining higher grade Federal reserves will be at 12½ percent royalty.

This information is provided for your review and comment. Due to the immediate need for the company to proceed with mining this ore, we request any comment you may have within the next 30 days, or earlier, if possible. We plan to come to a final decision on this matter by the end of July.

If you have any questions concerning this proposal, please call Allan Rabinoff at 539-4228 or Allen Vance at 539-4040.

Sincerely,

James M. Parker

James M. Parker
State Director